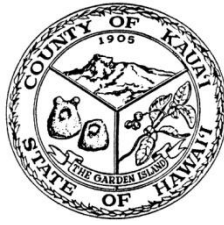


Bernard P. Carvalho, Jr.
Mayor



Gary K. Heu
Managing Director

OFFICE OF THE MAYOR
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May 5, 2011

Honorable Jay Furfaro, Chair
And Members of the Kauai County Council
3371-A Wilcox Road
Lihue, Hawaii 96766

Re: Fiscal 2012 Supplemental Budget Submittal

Dear Chair Furfaro and Councilmembers:

Pursuant to requirements of the Kauai County Charter, I present to you the proposed supplemental operating budget for the County of Kauai for fiscal year 2012 (FY12).

Our approach to the budgeting process this year has been to hold the line on expenses to the greatest degree possible, with a focus on restoring higher levels of service in some areas which can no longer be allowed to be hampered by lack of staffing, funding or other resources.

We appreciate the discussion we have had with the council regarding the budget during the month of April. It is clear to me that, while we may not agree on all priorities, we are substantially aligned on recognition of the challenges we currently face, and the need to be proactive in addressing them.

This supplemental proposal includes some changes, many of which will be highlighted in this message. The one significant change you will see in this proposal is the addition of a "reserve fund."

Reserve Fund

As you know, we have discussed creating a reserve fund extensively during this budget process and previously. We all appear to be in agreement that a reserve fund is necessary, and given the current fiscal environment, I believe that now is the time to implement it. Simply put – it is the fiscally responsible thing to do.

On March 15, we submitted an operating budget in the amount of \$164,979,851. The portion of this supplemental operating budget that is comparable to that submittal is \$161,706,442 – or a \$3.3 million decrease.

However, due to the creation of a reserve fund, this submittal looks very different. With the inclusion of the proposed reserve, the operating budget now totals \$185,972,525.

Establishing the reserve fund and policy is important from many standpoints – including providing a buffer for unexpected events such as natural and man-made disasters which impact us financially, creating a basis for higher credit ratings, and insuring financial stability to reduce the need for revenue enhancements in the future. We recommend that the reserve balance be established in the range of 20-25% of the previous year's actual operating general fund expenditures plus general fund transfers and encumbrances, as identified in the County's Comprehensive Annual Financial Report (CAFR).

As part of this submittal we are including for your consideration, as a budget proviso, a draft framework for the establishment of the Reserve Fund policy

Aside from the Reserve Fund, allow me to briefly highlight for you the significant changes in this supplemental budget proposal.

Revenue Picture

Our revenue outlook has changed since the March 15 proposal:

1. Real Property Tax (RPT): the certified roll for RPT shows an increase from our original projection of roughly \$2.7 million, and now stands at \$79,287,121.
2. Transient Accommodations Tax (TAT): When we presented our budget in March, we made an assumption that the TAT would be available to us in FY12 at approximately the same level as we are experiencing today, or perhaps slightly lower. With the legislature's action last week to cap for three years the Counties' share at \$93 million, we find that our March 15 estimate was correct, and that our TAT revenues in FY12 will be approximately \$13.5 million.
3. The contribution to debt service has been reduced by \$2.7 million. This is due to a recalculation of the amount required based on the actual data from our 2010 bond float, versus the projection that was used in budgeting for the current fiscal year.

Revenue Source	FY11	FY12	Difference	% Change
Real Property	81,469,935	79,287,121	-2,182,814	-2.7%
TAT	12,000,000	13,485,000	1,485,000	12.4%
Golf	1,563,087	1,232,327	-330,760	-21.2%
Solid Waste	3,046,000	6,252,000	3,206,000	105.0%
Highway	11,120,000	11,765,000	645,000	5.8%
Reserve	0	26,266,083	26,266,083	

Capital Improvement Projects

The County's proposed capital budget for FY12 now totals \$83,107,145 which is \$2.4 million lower than in our March submittal.

Bikeway Fund	42,577
Bond Fund	64,596,848
Development Fund	35,568
General Fund (CIP)	7,276,429
Highway Fund (CIP)	7,457,469
Sewer Trust Fund	1,067,452
Special Trust Fund for Parks & Playgrounds	2,630,802
TOTAL ALL FUNDS	83,107,145

Over the past 45 days we have re-examined all projects that we are proposing to fund and have further refined the list to those projects that are truly critical and "ready to go."

There are several increased and/or new CIP items included in the supplemental proposal:

1. Kahuna Road realignment (\$1,800,000 additional): The realignment of Kahuna Road is a joint State of Hawai'i / County of Kaua'i project necessary as part of the effort to decommission the Lower Kapahi Reservoir. Originally the intent was to close Kahuna Road, which forms the reservoir dam, in order to install the improvements. It was determined that closing the road was unacceptable from an emergency services accessibility standpoint, so the proposed solution is to realign a portion of Kahuna Road with the necessary improvements to decommission the reservoir, and then abandon the old alignment. The County's share of the project increased from \$1.8 million to \$3.6 million as a result of this change in scope.

2. Lae Road safety improvements (\$100,000 new line item): Lae Road runs adjacent to Elua Reservoir. Installation of guardrails is a necessary safety improvement.
3. Coco Palms sewer pump station improvements (\$350,000 new line item): This funding will address long-standing odor issues in the vicinity of this facility.
4. Information Technology Imaging Initiative (\$160,000 additional): This project is an important, long-term investment for the County. The additional funding for document imaging will cover costs to begin phase two of this project.
5. Complete Streets/Safe Routes to School – Kawaihau and Mailihuna Roads (\$55,000 additional) – based on new projections from Public Works this project cost has been increased to \$155,000.
6. General Plan Technical Studies (\$424,999 new line item): As we look to move forward aggressively on area development plans and a General Plan update, it is imperative that we begin with a solid foundation of reliable data. We feel it's prudent that analysis of growth projections, housing needs, economic expansion and job growth, traffic, along with a land use build-out analysis and an infrastructure needs assessment should all be done before embarking on the General Plan update. The studies would break out information by districts as well as provide island wide projections. Data from these studies will assist in the completion of the various area development plans in progress and for those that are next on the list (e.g. Līhu'e Development Plan).
7. Wailua Wastewater Treatment Plant (WWTP) clarifier repair (\$400,000 new line item): The Wailua WWTP has two clarifiers, which are essential in the wastewater treatment process and are required by our NPDEDS permit. The clarifier drive assemblies and associated mechanical equipment have never been changed from the time they were initially installed approximately 30 years ago. Signs of aging and wear have recently surfaced and the need for repair is imminent. This request is for funding of \$400,000 in order to repair or replace two clarifier mechanical drive systems. Funds available in the division's contract repair line item are not sufficient for the work required, thus, this CIP request.

Other CIP projects have had their funding reduced for various reasons:

1. 'Ele'ele wastewater treatment plant improvement (reduced \$1,600,000): Project funding needs came in under budget, and the next phase construction work will be funded with state revolving funds rather than bond funds.
2. Līhu'e wastewater treatment plant chemical lab (reduced by \$550,000): bids for this project came in lower than projected, thus, the funding was adjusted to reflect true cost.
3. Kekaha landfill lateral expansion (reduced by \$2,300,000): This item has been adjusted to include only those cost items that will be incurred in the next 18 months.
4. Adolescent residential drug treatment facility development (reduced by \$1,500,000): Funding for this project was adjusted to reflect the cost of pre-design and conceptual planning, which is expected to be spent during the window we have identified.

5. General Plan Update (reduced by \$1,249,999): This item has been dollar-funded and a new line item has been added titled “General Plan Technical Studies,” per the discussion in the previous section.

Operational Adjustments

Since our initial submittal, the state and counties have reached an agreement with the Hawai'i Government Employees Association (HGEA) for the period July 1, 2011 – June 30, 2012. Although we have yet to enter supplemental agreement negotiations with HGEA for a pact that is specific to Kaua'i, we do anticipate that, at minimum, the health-fund contribution from employees will rise from 40% to 50% for this agreement period.

Thus, we have adjusted the health fund costs for each department accordingly, resulting in a \$785,845 savings across-the-board. We have not adjusted salaries and wages pending the outcome of the supplemental agreement talks with HGEA.

The following items have surfaced since March 15, which we feel are worthy of funding consideration for FY12:

1. Office of the Mayor:
 - a. American Red Cross: An annual \$20,000 allocation to this agency was inadvertently omitted in our initial proposal, and has been restored here.
 - b. Washington D.C. lobbyist: We feel there are ample grant opportunities on the federal level which we cannot afford to overlook. Our previous experiences with federal lobbyists have been positive, thus, we are proposing to retain a firm at a cost of approximately \$50,000.
2. Office of the Prosecuting Attorney: Based on the current and projected future workload, we are proposing to fund an additional deputy position, and to dollar-fund new Special Investigator and Receptionist positions (total additional: \$101,068).
3. Office of Economic Development: There is no question that a large factor in our financial recovery is the economic health of our island as a whole. Through our discussions we have concluded that the following additional projects are worth consideration:
 - a. Philadelphia International Flower Show 2012: This event, which draws 260,000 upscale buyers every year, will focus on a Hawai'i theme in 2012. Members of the local tropical flower industry are responsible for uncovering this incredible opportunity to not only showcase and sell Kaua'i as a visitor destination, but also to provide a venue for local vendors to sell a variety of goods and services on-site. In order to properly showcase Hawai'i, public and private entities throughout the state must collectively spend hundreds of thousands of dollars on shipping, traveling, displays, promotions, etc. We propose to allocate an additional \$25,750 to assist in this effort, bringing their grant amount to a total of \$30,000.

- b. Kaua'i Economic Development Plan (KEDP/CEDS) Feasibility Studies: The KEDP/CEDS is Kaua'i's roadmap for economic diversification into the future. Armed with an updated plan, we are poised to move on new job-creation opportunities in the six industry clusters targeted for growth. We propose spending \$100,000 to develop feasibility studies, to bring some of the priority projects included in the plan to fruition.
 - c. Asia Pacific Economic Cooperation Conference (APEC): As you know, this important conference is scheduled to be held in November of this year on O'ahu. There are important opportunities for business expansion, export and tourism related to this event, and we are asking for \$25,000 to cover expenses for monthly planning meetings on O'ahu, travel subsidy for APEC delegates to visit Kaua'i, travel subsidy for Kaua'i businesses chosen to participate in the Business Innovation Expo on O'ahu, and for a sister city delegation from Russia to travel to Kaua'i in September.
 - d. YWCA: the \$25,000 grants for the Family Violence Shelter and the Sexual Assault Treatment programs have been renewed for another year (total \$50,000)
 - e. Kaua'i Independent Food Bank: The \$5,000 appropriation for the SNAP enrollment program is being proposed to run for one additional year.
4. Kaua'i Police Department: The second year lease payment on a police vehicle, which was inadvertently left out of the March 15 submission, is being included here at a cost of \$90,000.
5. Kaua'i Fire Department: The Official Kaua'i Beach Guide has been printed in partnership between the County and private entities for nearly 10 years. Approximately 100,000 guides are printed every year and distributed throughout the island in accommodations and brochure racks. In recent years, the private funding for this important ocean safety tool has all but disappeared, however we can ill afford to not provide this life-saving information to the public. We have budgeted \$20,000 to insure that the guide continues to be available as widely as possible.
6. Civil Defense Agency: The Civil Air Patrol, which provides critical support services for the County in emergency situations, has recently experienced a reduction in their state funding. We are proposing to increase their annual grant from \$15,000 to \$30,000.
7. Department of Public Works: Public Works is proposing to move the dollar-funded Solid Waste Collections Supervisor to the Engineering Division in order to fund a Civil Engineer III (SR-22-C at \$45,576) position. This position will provide support to the Division's Regulatory Section in order to provide additional capacity, and is consistent with its continuing efforts to reduce review and approve intervals.

8. Agency on Elderly Affairs: An additional \$15,712 has been allocated to the RSVP program to cover a shortfall due to recent notification of a reduction in grant funds received from the federal government via the state.
9. Planning Department: While updating plans is critically important, Planning is not adequately staffed to manage these processes with the current workforce. Therefore, two dollar-funded positions have been established, which will be funded through the various development plans and General Plan technical studies CIP line-items, to provide the necessary manpower for coordination.

Holo Holo 2020



Funding for the various projects associated with our Holo Holo 2020 initiative is imbedded in various areas of the operating budget, CIP budget and also in state and federal grant funds not reflected in this budget proposal.

Attached is a spreadsheet that identifies funding sources for the 38 projects. As you can see, we currently have more than \$31 million allocated to address the various initiatives associated with Holo Holo 2020. More detail on this program can be found on the County's website:

www.kauai.gov/mayor.

Conclusion

We thank all members of the council for the dialogue we have had and feel confident that this proposal represents a fiscally prudent and forward-focused budget upon which we can continue to build stability for the future.

We look forward to working with the Council to finalize this budget, and moving into the new fiscal year with optimism for the future. I am confident that *"Together We Can!"*

Respectfully submitted,

Bernard P. Carvalho, Jr.

Mayor Bernard P. Carvalho, Jr.

C: Gary Heu, Managing Director
Wallace G. Rezentes, Jr., Finance Director

Att: Holo Holo 2020 initiatives FY12 budget spreadsheet

HOLO HOLO 2020 INITIATIVES - COUNTY OF KAUAI FY 12 PROPOSED BUDGET

Project #	Project Description	Primary Agency	Secondary Agency	FY 2012 Budget Location	Amount
1	Residential Adolescent Drug Treatment Facility	Anti-Drug Program		CIP Bond Fund: 401-0501-512.30-00	\$500,000.00
2	Kekaha customer service kiosk (private-county partnership)	Finance - IT		IT to conduct web-based survey to assess community needs and interest	\$0.00
3	Additional Hawaiian Homes in Anahola	Housing		Continued collaboration between the County Housing Agency and DHHL on projects	\$0.00
4	'Ele'ele – Build a 75-acre 'green' affordable housing development	Housing		CIP Bond Fund: 401-2061-642.30-00	\$273,088.00
5	Kaua'i Community College extension of satellite campuses and degree offerings	KCC	OED	OED Partnership with KCC (manpower)	\$0.00
6	Kē'e Beach shuttle service	Transportation	OED	Transportation and OED in collaboration with DLNR on Hā'ena State Park Master Plan shuttle proposal.	\$0.00
7	Electric vehicle charging stations	OED	Public Works	State DBEDT Grant to OED	\$276,000.00
8	Kīlauea Ag Park (7-day farmer's market)	OED	Planning	CIP Bond Fund: 401-0901-512.30-00	\$419,407.00
9	Restore storm irrigation system at Kalepa	Public Works	OED	CIP Bond Fund: 401-2031-641.30-00 (New Landfill and Resource Recovery Park Development/Acquisition)	\$4,234,677.00
10	Papaya Disinfestation Facility	OED		OED operating budget grant: partnership with Kaua'i County Farm Bureau Development Corporation ongoing	\$10,000.00
11a	Increase commerce in towns across the island by maintaining unique character	Public Works		CIP Bond Fund: 401-2071-624.30-00 (Hanapēpē Bridge Pedestrian Walkway Repairs)	\$100,000.00
11b	Increase commerce in towns across the island by maintaining unique character	OED		OED operating budget Special Events/Grants HTA (\$65,000); HTA CPEP grant to county (\$425,000)	\$490,000.00
12	Maintain educational activities/programs (Kauai in-step science show and robotics programs)	OED		OED partnership with Kaua'i Economic Development Board	\$0.00
13a	Increase use of alternative energy sources via implementation of Kaua'i Energy Sustainability Plan	Various		CIP Bond Fund: 401-0901-512.30-00 (Alternative Energy Projects and New Alternative Energy Projects)	\$1,565,313.00

HOLO HOLO 2020 INITIATIVES - COUNTY OF KAUAI FY 12 PROPOSED BUDGET

Project #	Project Description	Primary Agency	Secondary Agency	FY 2012 Budget Location	Amount
13b	Increase use of alternative energy sources via implementation of Kaua'i Energy Sustainability Plan	OED	Various	OED coordination of Performance Contract with Energy Services Company	\$0.00
13c	Increase use of alternative energy sources via implementation of Kaua'i Energy Sustainability Plan	Mayor's Office	All Departments	Mayor's Office operating budget Sustainability Initiative (carbon footprint measurement)	\$12,000.00
13d	Increase use of alternative energy sources via implementation of Kaua'i Energy Sustainability Plan	OED		OED feasibility study of Renewable Energy CEDS industry cluster	\$50,000.00
14	Hanalei Beach expansion	Parks and Recreation	County Attorney	CIP Bond Fund: 401-0801-512.30-00 (Park/Open Space Land Acquisition)	\$8,000,000.00
15	Amended State and County Rules & Regs to regulate activities in parks	Parks and Recreation	County Attorney	Parks and Recreation and County Attorney operating budget (manpower)	\$0.00
16	Extend Ke Ala Hele Makalae coastal path for 15 connected miles	Public Works		FHWA grant funds	\$7,200,000.00
17a	Po'ipū Beach Park maintenance and updates (stainless steel fixtures at bathrooms, open camp grounds, sports/soccer field)	Parks and Recreation	PW/Building	CIP Special Trust Fund for Parks and Playgrounds (Kōloa District): 402-3001-661.30-00	\$130,000.00
17b	Lydgate Park maintenance and updates (stainless steel fixtures at bathrooms, open camp grounds, sports/soccer field)	Parks and Recreation	PW/Building	CIP Special Trust Fund for Parks and Playgrounds (Lihue District): 402-3001-661.30-00	\$575,000.00
18	Hanamā'ulu Neighborhood Center	Parks and Recreation		Project not ready for funding	\$0.00
19	Increase Native Hawaiian group stewardship programs/partnerships	Parks and Recreation	County Attorney	Parks and Recreation and County Attorney operating budget (manpower)	\$0.00
20	Restore/Preserve Cultural Sites	Parks and Recreation	OED	CIP General Fund: 408-0901-512.30-00 (Kaneiolouma Restoration/Matching)	\$100,000.00
21	Kalāheo Neighborhood Center w/ community garden and park-and-ride site	Parks and Recreation		Partnership with Kaua'i Community College for community garden (manpower)	\$0.00
22	Complete Kekaha Gardens Park	Parks and Recreation		CIP Bond Fund: 401-2071-624.30-00 (Kekaha Gardens Park)	\$668,500.00
23a	Implement Līhu'e Town Core Plan	Public Works		CIP Bond Fund: 401-0501-512.30-00 (Rice Street Crossing Improvements)	\$292,466.00
23b	Implement Līhu'e Town Core Plan	Public Works		CIP General Fund: 408-0901-512.30-00 (Piikoi Interior Renovation Phase II)	\$2,000,000.00

HOLO HOLO 2020 INITIATIVES - COUNTY OF KAUAI FY 12 PROPOSED BUDGET

Project #	Project Description	Primary Agency	Secondary Agency	FY 2012 Budget Location	Amount
24	Expand Līhu'e Civic Center Park/Lawn (rotunda to old county building)	Planning	Public Works	Project not ready for funding	\$0.00
25a	Implement Complete Streets island-wide	Public Works/Roads		CIP Bond Fund: 401-2001-601.30-00 (Complete Streets/Safe Routes to Schools - Kawaihau/Mailihuna Road)	\$155,000.00
25b	Implement Complete Streets island-wide	Public Works/Roads		CIP General Fund: 408-2071-624.85-02 (Hardy Street Improvements - County Match)	\$900,000.00
25c	Implement Complete Streets island-wide	Planning		CIP Bond Fund: 401-0801-512.30-00 (Līhu'e Development Plan)	\$905,000.00
26	Increased LEED-certified buildings	Public Works	OED	No new building construction slated for FY12	\$0.00
27a	Safe routes to school/ Walkable communities	Public Works/Roads		CIP Bond Fund: 401-2001-601.30-00 (Complete Streets/Safe Routes to Schools - Kawaihau/Mailihuna Road) <i>funding included in project #28</i>	\$0.00
27b	Safe routes to school/ Walkable communities	Public Works/Roads		CIP Bond Fund: 401-0801-512.30-00 (Līhu'e Development Plan) <i>funding included in project #25c</i>	\$0.00
28	Pave the road to Kalalau lookout	Public Works/Roads	State DOT/DLNR	CIP Bond Fund: 401-2071-624.30-00 (Kokee Road - Matching \$999,792) and CIP Highway Fund: 409-2071-624.30-00 (Kokee Road Resurfacing -FHWA \$23,029)	\$1,022,821.00
29	Develop new resource recovery park and landfill site	Public Works/Solid Waste		CIP Bond Fund: 401-2031-641.30-00 (New Landfill and Resource Recovery Park Development/Acquisition) <i>funding included in project #10</i>	\$0.00
30	Close Kekaha landfill	Public Works/Solid Waste		Closure activities still several years away	\$0.00
31	Insuring continued viability of PMRF	Senator Inouye	Mayor's Office	Mayor's Office and OED working with federal partners	\$0.00

HOLO HOLO 2020 INITIATIVES - COUNTY OF KAUAI FY 12 PROPOSED BUDGET

Project #	Project Description	Primary Agency	Secondary Agency	FY 2012 Budget Location	Amount
32a	Leasing of 1,000 of land to farmers at Kalepa	OED	State ADC	County partnership with Grove Farm and Agribusiness Development Corporation as part of proposed new landfill and resource recovery park development <i>funding included in project #10</i>	\$0.00
32b	Leasing of 1,000 of land to farmers at Kalepa	OED		OED feasibility study of Food and Agriculture CEDS industry cluster	\$50,000.00
33	Preserve & maintain Kokee State Park	State DLNR		County partnership with State DLNR and community	\$0.00
34	Kūhiʻō Highway widening project	State DOT Highways		County support of HDOT efforts to move project	\$0.00
35	Additional hybrid buses with increased ridership	Transportation		Transportation Agency operating budget vehicle lease purchase	\$60,000.00
36	Increased alternative transportation (Kaua'i bus, connecting shuttle services, bike/walking paths)	Transportation		<i>See project #4, 6, 16, 25, 27, 35, 37, 38</i>	\$0.00
37	All sheltered bus stops	Transportation		CIP General Fund: 408-4501-693.30-00 (Sheltered Bus Stops)	\$250,000.00
38	Expand bus service routes and hours of operation	Transportation		Transportation Agency Operating Budget (various line items)	\$1,200,000.00

TOTAL ALL FUNDS (FED/STATE/COUNTY)

\$31,439,272.00

